



The 10X CEO

What Exceptional CEOs Do Differently

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While all CEOs have the same title on their business cards, they are not remotely playing the same game or getting the same results.

For the past 15 years, we at the CEO Project have studied and worked with approximately 700 CEOs of fast growing, mid-sized companies with revenue from \$15 million to \$1.2 billion. Our work consists of both in-depth interviews and quarterly group meetings, where we and their fellow CEO's use a very concentrated process to attack their most important priorities and decisions. Together we examine their thinking, work patterns and outcomes. Over time, we've found a striking difference between the most effective CEOs and their peers.

There is a profound difference in the speed with which a Chief Executive creates substantial, sustainable, economic value. Exceptional CEOs (in the top 5%) usually create 10 times or more economic value than their average CEO peer. This immense difference in CEO skill level and its effect on business performance is dramatic but is seldom analyzed.

Not surprisingly, we have found that much of the difference in performance can be traced to a few critical CEO success factors.

Factor #1 – Burning Desire to Improve and an Accelerated Ability to Apply Ideas

“The significant problems we face cannot be solved at the level of thinking we were at when we created them”

Albert Einstein

Exceptional CEOs have the courage to challenge today's world and create a different future. They look at their current environment and say, “Today's situation is not good enough...we are moving to a different place.” They are like Tiger Woods, who not once but twice, made the decision to completely retool his swing when he was already the number one player in the world. ***They have a burning desire to constantly raise their own game and create 10X outcomes. This desire fuels their daily thoughts and actions.***

This contrasts with the majority of CEOs and most of the general population who often become locked into their own mental map about the way the world works and how their “CEO Operating System” functions. Their success path has reinforced their comfort with today's environment and their past success may keep them attached to the same strategy, the same executives, and the same processes. This happens even more with CEOs of high intelligence and ego who believe “they have it figured out”. Many CEOs pride themselves in being “the smartest person in the room” as often they are. But the environment is not static and expecting the same tools and processes to solve newly emerging problems and opportunities is a losing game. The people they admire most are usually those that validate their own view of the world. So, ironically, innovative ideas can be a threat to both their own self image and to their comfortable status quo.

Exceptional CEOs see this inertia and the unknown as their great opportunity. They believe what they don't know or see, but can learn, is the great *white space* for continually creating new ideas or a stronger

competitive advantage. They are always attempting to see their world through fresh eyes and they use that ability to continually seek a “higher and better” idea about where their company might go and how to get it there. They regularly seek out individuals that challenge rather than confirm their current thinking and maintain the flexibility to change their view of what’s possible. This approach is most powerful when they identify potential that others have not yet recognized.

Driven by this desire to raise their game, they develop an ability to rapidly learn and effectively apply the best ideas. Among the CEOs we’ve worked with and studied, we asked a simple question that revealed the CEO’s learning ability. “In the last 12 months, what are the three most significant outside ideas you’ve learned and applied...and what is the expected economic value from what you’ve learned?” 10X CEOs always have solid, and in some cases, dramatic answers to this question. Contrast that to the average CEO whose answer is “I’m always learning...it’s difficult to put my finger on anything specific” or “I have reinforced some things I already knew”.

Among large companies, GE is a role model for its devotion to adopting (and improving on) significant ideas, wherever they come from. They were not bashful to admit they learned about the Six Sigma program from Motorola and felt it could become both the major engine for process improvement and also developing leaders. By 1998, GE had achieved \$750 million in Six Sigma savings and would get \$1.5 billion in savings the next year. By 2000, the GE annual report stated: “More than just being receptive to these ideas, we spend our days seeking them out. Years ago Toyota taught us Asset Management. Wal-Mart introduced us to Quick Market Intelligence. Allied Signal and Motorola got us started on our enormous Six Sigma Initiative.” They had the organizational maturity to find other companies with great ideas, learn from them, and embrace them as their own – with powerful results.

GE also intentionally schedules learning events for their top executives. The CEOs of their business units meet three times each year for the sole purpose of sharing innovative ideas and best practices across their business units. This gives each of their CEOs a multi-industry look at what might be possible in their individual businesses. In our own CEO Peer Groups, it has now become standard procedure to look at a situation and instead of asking, “How can I solve that?” to ask, “Where in the world does that best practice already exist”? Over time, our CEOs have created a set of high-impact ideas and solutions that have been tried and validated. The highest performers seek ideas from others because this shortens the learning and application cycle and takes the guesswork out of, “Will this really work”? They’ve created a tremendous time to profit and quality advantage over their CEO competitors who continue to take the non-value added time to re-invent the wheel.

Factor #2 – CEO Vision – Connecting the Dots and Calling the Sequence

Most CEOs have a vision for where they want to take their company. That, in itself, is not unusual. But exceptional CEOs have a sequence of thought and action patterns that both create a larger vision and convert it to reality.

They have the ability to “connect the dots” by looking at existing or potential customer needs and matching those needs with resources that they believe they can assemble. They have a clear ability to see a future that’s exponentially bigger and brighter. This trait became clear from observing CEOs in our peer groups. Each CEO sees the same facts and information regarding the decisions, but surprisingly, we have observed wide differences in how individual CEOs interpret what they see and the implications they draw. The exceptional CEO invariably sees further ahead and seeks opportunities and leverage points that are multiples greater than their peers. Their time horizon is longer and their thoughts are geared to creating something significantly different than the current status quo through a series of thoughtful actions.

This ability to connect the dots is very different from the typical CEO, who is more concerned with showing incremental improvement over last year’s results. For many CEOs, the annual budget process is their primary planning tool and roadmap. Unfortunately, budgets are not designed to create exponentially different outcomes and are clearly not aspirational documents or processes. The annual budget ritual is often the triggering event for corporate planning, but its main purpose is often relegated to negotiating an

annual goal that management expects to meet or beat to get paid their bonuses. This game of poker does not bring out the best in people and may actually put the brakes on achieving 10X results.

So, how are exceptional CEOs different in this regard? High performance CEOs are not pre-occupied with this year's budget. ***Instead of beating this year's plan, they are more concerned with "calling the sequence" of critical success elements for achieving their longer term future.*** Instead of looking at traditional goals with action plans (e.g., grow revenue by 10% and here are the steps), they are developing a deep understanding of the underlying assumptions that will create exponential results.

Their thinking often starts with a question, "What could really happen in an ideal world if all the stars aligned"? They then identify and prioritize these elements necessary for their ideal vision to be realized. Generally, some of these milestones are easy and a critical few will determine if they can achieve the stated vision. Then they set out to build organizational muscle that can focus and succeed at accomplishing these critical success elements.

The critical success elements usually fall into three categories:

1. ***Establishing the right business/profit model***
2. ***Selecting and developing key talent throughout their organization***
3. ***Creating effective processes in customer service and sales***

Element#1 - Picking the Right Business/Profit Model

Exceptional CEOs start by building a profitable, sustainable business model. This requires the CEO to carefully choose the company's product offerings, target markets, and distribution channels.

What are the elements of a great business/profit model?

1. Demand exists or can be created that consistently exceeds supply.
2. Customers love the product and advocate it to their friends and associates.
3. They have a high degree of recurring, repeat or sequential revenue.
4. They create a sustainable advantage that is difficult to duplicate and deepens over time.
5. They possess a very high gross margin, net margin, and return on invested capital.

Great Business Model

You wouldn't be surprised to realize that a company like eBay aligns well with these criteria. In the eBay model, demand accelerates as the population of buyers and sellers grows. The eBay model creates a strong community leading to a high level of recurring usage and high switching costs. People like the product so much, they tell their friends. As the community grows the barrier to entry increases. And the margins are very high since eBay typically doesn't take ownership of any goods.

So, when looking at critical success elements, the exceptional CEO starts here. If the existing business does not meet the requirements of a great business, and they can't make it meet the requirements, they take their ball and go home (by selling or closing the business). They will not waste their skill on a mediocre business. Berkshire Hathaway started as a low margin / high capital manufacturer of linings for men's suits. Warren Buffet took the meager returns from the business and, instead of reinvesting in the business, bought businesses with much better economic characteristics (insurance, newspapers, and candy were his next three investments).

Element #2 - Selecting and Developing "A" Players throughout their organization

The second lever is talent. Since exceptional CEOs have already created a strong business model, they need to ensure they have the best people to create processes and execute the model. They are prepared to spend a significant amount of time selecting, evaluating, and developing the human capital in their organization.

Exceptional CEOs are rigorous in evaluating their talent. Where many CEOs often find it expeditious to tolerate mediocre performance, high performance CEOs will not. They will hold their team to the same exceptional standards they hold themselves. They are disciplined about upgrading their human capital.

Many CEO Project companies have adopted an effective method for evaluating their talent, which is clear and understandable throughout their organization. In this method, the CEO assumes the person being evaluated has been out of their position for a year and has the chance to hire them back. The ratings would be:

- “A” The CEO would move “heaven and earth” to rehire that person
- “B” The CEO would definitely rehire that person instead of taking a chance in hiring a new person
- “C” The CEO would not rehire that person and instead hire someone from the outside

In looking at their individual talent, many CEOs have a complete blind spot when it comes to assessing the performance and potential of their direct reports. Simply put: they tend to overrate their team members. It’s not uncommon for 360-degree feedback results to show a significant gap between the CEO’s rating and those of the team member’s peers and direct reports.

How does this happen? Most CEOs don’t want to admit they made a hiring mistake. And although mediocrity is the enemy of high performance, most CEOs won’t terminate someone who is just okay in their position.

But exceptional CEOs are different because they are ruthless about continually evaluating, coaching and upgrading their human capital. They hold themselves and their direct reports accountable for exceptional performance. They understand the damaging effect mediocrity can have on 10X outcomes and they just refuse to allow it. This view of talent, especially when cascaded throughout their organization, further distances them from their CEO peers.

Element #3 - Creating Effective Processes in Customer Creation, Service and Growth

The final CEO business lever is to create superior processes for delighting existing customers and acquiring new ones.

If a company can systematically increase its customer base and delight its existing customers, this combination leads to a series of compounding events. Existing customers continuously buy more of the firm’s products at a cost of sales far below that of capturing new clients. Happy clients refer others.

Exceptional CEOs pay very close attention to how they deliver customer delight, while taking costs (both in money and time) out of the system. One tool used extensively by CEO Project companies is Frederick Reicheld’s article (*The One Number You Need to Grow*, Harvard Business Review 12/03) that talks about the very high growth leverage associated with this process. It comes from asking one question, “**How likely is it that you would recommend company x to a friend or colleague?**” Reicheld has determined a very high correlation between “very likely” answers, which he calls “Promoters” and extremely high sales growth. Once you know your numerical score, you can then identify, isolate and continually improve the elements that customers value most. Reicheld’s work is another example of an effective tried and true method that many CEO Project companies have used to shorten the learning curve on a vital business process.

Obviously delighting customers only can occur after you have created customers to start with. How you go about creating customers is usually much more science than art. Focusing on this process, which can be different for every business, is a critical part of developing any new business. A great example of a company that continually analyzed and revised its sales strategy is Orange Glo International. Orange Glo International is the maker of OxiClean and other residential cleaning products. In the beginning, these products were sold mostly through craft shows and state fairs. The product would sell itself in live demonstrations but obviously the company would stay very small relying on selling at individual craft

shows and live demonstrations. The company found its leverage on the Home Shopping Network. The product was demonstrated live to millions and it sold very successfully. They later moved to extensive use of infomercials as a method of demonstrating their unique product. Users began telling their friends and the company was on its way. This word of mouth growth was leveraged into shelf space in specialty stores and ultimately into large box retailers like Wal-Mart. All new products follow this same customer demand creation process and are killed or modified if they do not perform well on the state fair circuit. OxiClean became so popular that it eventually became one of Wal-Mart's top selling items in the category and the company is now over \$300 million in sales.

But typical CEOs only spend a fraction of their time really analyzing this critical success element in an objective, analytical fashion. Exceptional CEOs invest a very large part of their time and intellectual energy on their sales process, until it is "nailed to the wall" and is no longer the business's primary constraint. This does not mean making sales calls to customers! We noticed a material difference between working "on" their sales process rather than working "in" their process. When exceptional CEOs do go on sales calls, their objective is not the sale – it is learning about the sales process and developing insight on how to improve it. They work like much like a scientist, gaining a deep understanding of cause and effect, isolating the dependencies and testing their assumptions. And they work with their team on continually improving these processes.

So, the exceptional CEO follows a consistent thinking process. The steps are (1) a future is formulated, (2) a critical path is discovered with the constraints identified (business/profit model, talent, core processes), (3) action is taken against the plan and (4) it is refined as they learn. Then the process starts over again. It is the tight integration and frequent iteration of these elements that makes the exceptional CEO different than their peers.

Factor #3 - CEO Time Allocation - Creating 10X Leverage

Among all of these ideas, the clearest differentiation between exceptional CEOs and the others can be observed by looking at their calendars.

A typical CEO might arrive in the office at 7:30 AM on Monday morning, answer his 50 e-mail messages and return his 10 voice mails. He then performs "management by walking around", holds several meetings, returns more e-mails and voice mails, and goes home at 6:30 PM after his typical CEO day. He might add a few more hours in the evening or on the weekend, cleaning up e-mails and reading he did not get to during working hours. This is another typical CEO working a typical 55-65 hour week.

The exceptional CEO takes a different approach. She has decided in advance that she will spend at least 50% of her time on (1) improving her business/profit model (2) upgrading the human capital in her organization and (3) improving the company's customer service and sales processes. So the first thing every Monday morning, she asks herself a series of questions...

1. What can I do today and this week that will move the bar on my critical success elements?
2. What are my top three projects that really will impact the business (80/20 rule)?
3. Are there existing ideas inside and outside the organization that can speed up my learning time and improve my result?
4. How can I delegate, minimize or eliminate everything else from my schedule?
5. How can I cascade my superior focus and learning ability to other members of my team?

Exceptional CEOs believe that time is a greater currency and scarcer resource than capital and they use their superior time allocation ability as a significant competitive weapon.

Can time allocation really be a competitive weapon? This is not a common consideration for many CEOs. They usually are attempting to juggle too many projects and tasks and often do not have a reliable map for gauging where they should or should not spend their time. Therefore, they tend to work very long hours

and sometimes feel that, instead of running the business, the business is running them. They are so busy using the saw, they have no time to sharpen it or determine if it is even the right tool.

Exceptional CEOs know the difference between activities that potentially add long term value and things that just fill up the calendar. Instead of filling their days with routine calls and meetings, they focus their time and intellectual energy on those success elements that build their long term competitive position. Interestingly enough, they usually work fewer hours with far greater result than their peers.

But this is not the pattern for the majority of CEOs. Time demands on CEOs are intense and their calendar is filled with organizational hygiene activities that feel good in the short term, but don't do much for the competitive position of the business. Routine e-mail, traveling time, charity and public relations events as a representative of the company all fit into this category. Often a CEO will get on a plane and travel to influence a sale that is needed to make the quarterly numbers. Most CEOs consider these activities essential and it often takes a majority of CEO's 60-hour weeks. But stop and think - do these activities really improve the long term competitive position of the business? The hygiene trap is particularly prevalent for CEOs of public companies. Unfortunately, most Board activities, regulatory compliance, analyst meetings and other requisite public appearances to increase visibility do not materially improve the competitive position or value of the business. But these activities often consume a large part of a CEO's calendar. While important, many of these items can be minimized and delegated to others on a strong executive team.

Exceptional CEOs find ways to minimize organizational hygiene time and put their time and energy into their critical success elements. Instead of dozens of projects and tasks, they focus only on the vital few that will improve the company's long term competitive position. They view the potential uses of their time in a hierarchy of value.

This hierarchy focuses on the uses of time that provide the most leverage as the highest priority for the high performance CEO. The secret to their effectiveness is spending time on selecting the business model, growing their human capital, and developing processes to consistently create and delight customers.

In order to obtain even greater leverage, they apply these same principles with their executive team. They typically review their critical success elements together on a regular basis, sometimes weekly, and each member of the team identifies their priorities that will have the greatest impact. The team then holds each other accountable for producing results.

Are You a 10X CEO?

How do your personal and business skills compare with exceptional CEO's? These questions will provide a mirror into your own CEO effectiveness.

1. Are you committed to raising your CEO performance and creating a significantly different future outcome for your company? What 3 actions are you taking to raise your CEO game?
2. Do you regularly consult with external, exceptional thought leaders who challenge your assumptions? Do you regularly learn and apply significant ideas that improve your company's competitive strength from outside your company's walls?
3. Have you identified your company's critical success elements and have you created an effective sequence for solving them? Do you clearly understand the constraints in the sequence and the critical milestones?
4. Have you accurately assessed your management talent and made the difficult moves to continually upgrade your human capital?
5. Do you continually analyze and improve your core processes like creating customers and delivering customer delight to achieve breakthrough levels of performance?

6. Have you created a business model with great demand/supply characteristics, including recurring or strong repeat business that has sustainable competitive advantage, and excellent profitability?
7. Do you focus more than half of your time on highest leverage tasks from Item 6? Do your habits of time allocation extend to your executive team? Do you keep the time spent on organizational hygiene to a minimum?

The formula to become a 10 X CEO is quite simple, but devilishly hard to implement and consistently perform:

1. Thirst for Knowledge and the Ability to Apply New Ideas
2. Clear Vision of the Future with Critical Path Identified
 - a. Excellent Business Model
 - b. Top Flight Talent in Critical Positions
 - c. High Performance Processes to Acquire and Delight Customers
3. Ruthless Focus of CEO Time on the Critical Path to Achieve the Vision

We have found that this series of best practices, if practiced effectively and consistently, can change the course of your business. We have also found that doing this in a group setting, with other like minded and independent individuals is a terrific way to ensure you are held accountable for your actions and will help you stay the course for achieving extraordinary performance through the difficult times.

Consider the math – an average CEO might get 10% of their time on the high leverage items in a given week - the exceptional CEO normally runs over 50% - a five times higher rate of work on the things that really matter. Multiply this by the superior selection of the things they work on and you have the 10X CEO.

Becoming a high performance CEO is not an easy task. It requires dedication of time and energy that many CEO's are not willing to work into their "busy" schedules. It also requires holding up a mirror that may show a new and uncomfortable view. But the evidence clearly shows that those who do spend the time and focus their effort on some very fundamental yet critical principles can achieve an order of magnitude of difference in business results.

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